

Thomas E. Hampton
Commissioner



V.

Capitol Specialty Insurance, Ltd. and
Capitol Specialty Insurance Risk Retention
Group, Inc.

CONSENT AGREEMENT AND ORDER

WHEREAS, the Companies deny that they have violated any law or regulation of the District of Columbia or that the Companies have operated in a financially hazardous condition; and

WHEREAS, a dispute regarding these issues could lead to lengthy administrative proceedings and protracted litigation, imposing significant costs on both the Commissioner and the Companies and leading to uncertainties regarding the ultimate resolution; and

WHEREAS, the Commissioner believes that the public interest would be best served by forgoing further administrative proceedings and litigation and their attendant costs and uncertainties and instead entering into an agreement and issuing an order whereby the Companies will comply with specific terms, conditions, provisions that address the issues raised by the Commissioner's findings and determinations; and

WHEREAS, the Companies believe that it is in their best interests to forgo further administrative proceedings and litigation and their attendant costs and uncertainties and instead agree to comply with the terms, conditions, and provisions set forth in this Consent Agreement and Order; and

WHEREAS, the Companies agree to voluntarily waive all rights to a hearing upon entry of this Consent Agreement and Order, without admitting or denying the existence of a violation, and the Companies have consented to the entry of this Consent Agreement and Order and agree that they will, upon signature below, take the actions set forth in this Consent Agreement and Order and comply with all of the terms, conditions, and provisions therein;

NOW, THEREFORE, the Commissioner issues, and the Commissioner and the Companies agree and enter into, this Consent Agreement and Order.

CONSENT AGREEMENT

Writing, Marketing, and Administration of New Business of CSIL and CSIR; Fronting Agreement with American Safety Indemnity Company

- A. As of the effective date of this Consent Agreement and Order, the entertainment insurance program of the Companies shall be written, marketed, and administered only in accordance with all of the terms, conditions, and provisions of, the attached Program Managers Agreement between American Safety Indemnity Company ("ASIC") and The Agency, LLC (Exhibit A), the attached Master General Agency Agreement between CSIL and The Agency, LLC (Exhibit B), and the attached Master General Agency Agreement between CSIR and The Agency, LLC (Exhibit C); provided, CSIR may continue to write business in California, Connecticut, Maryland, Nevada, New Hampshire, New York, Pennsylvania, and Tennessee for the two (2) year period (or such longer period as may be authorized by the Commissioner under Paragraph M) authorized by Paragraph M. For the purposes of this Consent Agreement and Order and any associated documents, the phrase "entertainment insurance program" means those lines of insurance authorized to be written by the Companies under the approved

business plans of CSIL and CSIR (as herein modified), subject to all conditions, restrictions, and limitations in those business plans and subject to all conditions, restrictions, and limitations set forth in this Consent Agreement and Order.

- B. During the three (3) year period after the effective date of this Consent Agreement and Order, none of the agreements referenced in Paragraph A above shall be modified without the prior written approval of the Commissioner.
- C. All entertainment insurance program business of the Companies shall be written on the policy forms contained in the existing approved business plans of the Companies.
- D. No business shall be written, marketed, or administered by or on behalf of the Companies except for the entertainment insurance program business of the Companies.
- E. The Companies agree that although the attached Master General Agency Agreement between CSIL and The Agency, LLC (Exhibit C) may cover activities other than those authorized in this Consent Agreement and Order, CSIL shall not engage in, nor shall CSIL authorize The Agency, LLC to engage in on CSIL's behalf, any activities not authorized by this Consent Agreement and Order. The Companies agree that the activities of CSIL authorized by this Consent Agreement and Order are limited to reinsurance activities, as further described and limited in this Consent Agreement and Order.

Prior Business of CSIL and CSIR; Run-Off Business of CSIL and CSIR

- F. Any claims related to the business of the Companies written before the effective dates of the agreements referenced in Paragraph A above shall be handled pursuant to the attached Claims Servicing Agreement between CSIL and The Agency, LLC (Exhibit D) and the attached Claims Servicing Agreement between CSIR and The Agency, LLC (Exhibit E). Neither claims servicing agreement shall be modified without the prior written consent of the Commissioner.
- G. All business of the Companies written before the effective date of the agreements referenced in Paragraph A above shall be administered and managed pursuant to the attached Management Agreement between CSIR and B&D Consulting LLC (Exhibit F) and the attached Management Agreement between CSIL and B&D Consulting LLC (Exhibit G).
- H. The Commissioner hereby approves the attached Cost Allocation Agreement between CSIL, CSIR, and Insurance Designers of Maryland (Exhibit H) for business written after the effective date of the Cost Allocation Agreement and prior to the effective date of the agreements referenced in Paragraph A above.

Management Agreements with B&D Consulting LLC

- I. CSIL shall comply with all of the terms, conditions, and provisions of, the attached Management Agreement between CSIL and B&D Consulting LLC (“B&D”)(Exhibit F) and CSIR shall comply with, all of the terms, conditions, and provisions of, the attached Management Agreement between CSIR and B&D (Exhibit G).

The Companies shall contract with B&D, or include as part of the management agreements referenced in this Paragraph, a requirement that B&D, for a period of one (1) year, provide a quarterly report (in a form provided or approved by the Commissioner) of ASIC’s, CSIL’s and CSIR’s premium accounting and policy issuance activities, and provide a written report to the Department for four consecutive quarters, provided, however, that information related to ASIC shall pertain only to ASIC’s activities related to the entertainment insurance program managed by The Agency, LLC, and any other transactions related to CSIL or CSIR.

B&D’s quarterly report shall report whether agent’s balances and all other receivables from managing general agents or other producers shown as an admitted asset have due dates less than or equal to sixty (60) days from the date the policies are issued (or, if the policies are issued on an installment payment basis, within sixty (60) days after the date on which each installment payment is due, provided that in no case shall any installment payment be due later than three (3) months prior to the end of the policy term), whether reinsurance premiums are being paid to CSIL within 60 days from the date the policies are underwritten, and whether all lines of coverage and policy limits written by the Companies are in compliance with the Companies’ business plans.

B&D shall also provide the Department with a separate quarterly bordereaux for CSIR for one year containing the following information:

Name of insured
Type of policy (line of business)
Premium amount
Policy limit(s)
Policy number
Effective date of policy
Term of policy

- J. Neither CSIL nor CSIR shall agree, authorize, or allow any modification of any term, condition, provision, or wording of the management agreements referenced in Paragraph I above without the prior written approval of the Commissioner.

Discontinuation of Business of CSIR

- K. CSIR shall, as of the effective date of this Consent Agreement and Order, cease writing insurance business, including new policies, renewals, and endorsements, in every state, province, and jurisdiction other than the following: California, Connecticut, Maryland, Nevada, New Hampshire, New York, Pennsylvania, and Tennessee.
- L. CSIR shall, as of the effective date of the this Consent Agreement and Order, formally relinquish its authority (by letter to the insurance regulator of each relevant jurisdiction and surrender of the physical license or other authorization or such other method that is approved in writing by the Commissioner) to operate as an insurer in every state, province, and jurisdiction, where it has been formerly authorized by express approval of such state, other than the following: California, Connecticut, Maryland, Nevada, New Hampshire, New York, Pennsylvania, and Tennessee.
- M. Unless the Commissioner approves in writing otherwise, within two (2) years after the effective date of this Consent Agreement and Order, CSIR shall:
 - 1. Cease writing insurance business, including new policies, renewals, and endorsements, in California, Connecticut, Maryland, Nevada, New Hampshire, New York, Pennsylvania, and Tennessee and shall formally relinquish (by letter to the insurance regulator of each relevant jurisdiction and surrender of the physical license or other authorization or such other method that is approved in writing by the Commissioner) its authority to operate as an insurer in those states, provided, however, that normal course endorsements shall be permitted to be issued during the policy terms of policies prior to the date that CSIR is required to cease writing insurance business under this Paragraph; provided, CSIR shall, prior to the end of the two (2) year period referenced in this Paragraph, cease writing insurance business in a state listed in Subparagraph 1 of this Paragraph within sixty (60) days after ASIC becomes authorized to operate as an admitted or surplus lines insurer in that state or two years following the effective date of this Consent Agreement and Order, whichever shall first occur;
 - 2. Relinquish and deliver to the Commissioner its license issued by the District of Columbia to operate as a captive insurer, provided, however, that the Commissioner shall authorize continued wind-down operations for the issuance of normal course endorsements and for the administration and handling of claims; and
 - 3. Formally dissolve the CSIR corporation.

- N. CSIR shall immediately effect cancellations of all its registrations in all states where it is currently registered, other than the eight (8) states listed in Paragraph K above, and provide the Department with copies of those cancellations. CSIR shall not register in any state without the Commissioner's prior written approval.

Premiums Due from IDMD

- O. On or before October 23, 2006, Insurance Designers of Maryland, Inc. shall pay to CSIL, in cash, \$574,097 as partial payment of the \$1,574,097 amount due from IDMD to CSIL, as such amount is set forth on pages 2 and 13 the financial statement of CSIL for the years ended December 31, 2005 and 2004.
- P. On or before October 23, 2006, Insurance Designers of Maryland, Inc. and CSIL shall execute the attached promissory note (Exhibit I), in the amount of \$1,000,000, setting forth the terms for the payment of the remainder of the \$1,574,097 amount due from IDMD to CSIL, as such amount is set forth on pages 2 and 13 of the financial statement of CSIL for the years ended December 31, 2005 and 2004.

Letter of Credit

- Q. On or before October 23, 2006, Jeffrey Cohen or IDMD shall provide the Department with an evergreen letter of credit on the Department's standard letter of credit form (Exhibit J), without modifications, in the amount of \$500,000. The cost of the letter of credit shall not be borne by CSIL or CSIR, nor shall CSIL or CSIR pledge any assets as collateral for the letter of credit. The letter of credit shall appear on the balance sheet of CSIL. CSIL shall maintain the letter of credit indefinitely or until such time as the Commissioner notifies CSIL in writing that the letter of credit may be cancelled.
- R. On or before October 23, 2006, Jeffrey Cohen or IDMD shall provide the Department with a letter of credit on the Department's standard letter of credit form (Exhibit J) in the amount of \$500,000. This letter of credit shall be in addition to the letter of credit required by Paragraph Q and shall expire no sooner than May 31, 2007. The cost of the letter of credit shall not be borne by CSIL or CSIR, nor shall CSIL or CSIR pledge any assets as collateral for the letter of credit. The letter of credit shall appear on the balance sheet of CSIL. CSIL shall maintain the letter of credit until such time as the infusion of capital required by Paragraph S is made and the Commissioner notifies CSIL in writing that the letter of credit may be cancelled.

Infusions of Capital

- S. On or before April 15, 2007, Jeffrey Cohen shall deposit \$500,000 of additional paid-in capital in the form of cash into CSIL. Such payment shall be made

pursuant to, and consistent with the terms of, the attached subordinate surplus note (Exhibit K) . After the deposit of additional paid-in capital has been made, CSIL may request that the Commissioner authorize the cancellation of the letter of credit required by Paragraph R.

Business Plan Modifications: CSIR

- T. CSIR hereby submits for approval, and the Commissioner hereby approves pursuant to D.C. Official Code § 31-3931.09(f), the following modifications to the business plan of CSIR:
1. B&D Consulting LLC (“B&D”) will be engaged and will operate as the captive manager of CSIR, and B&D will be responsible for all internal financial reporting and operational controls in addition to its statutory reporting and management duties.
 2. On or before the effective date of this Consent Agreement and Order, the ownership structure of CSIR will be amended as follows:
 - a. The International Association of Entertainment Businesses will receive an equal number of shares of Class B stock as the number of shares of Class A stock held by RB Entertainment Ventures.
 - b. The articles of incorporation shall be amended so that CSIR’s Class A and Class B shareholders shall have equal voting rights, except for the following matters, which shall only require approval of the Class A shareholders:
 - i. Incurrence of indebtedness for borrowed money in excess of \$250,000;
 - ii. Acquisitions or dispositions of assets, outside the ordinary course of business operations;
 - iii. Material changes to CSIR’s business plan requiring approval of the Department of Insurance, Securities and Banking;
 - iv. Filing of a petition for liquidation, dissolution, or bankruptcy;
 - v. Initiation of any lawsuit or settlement of any lawsuit, claim, or demand involving more than \$50,000;
 - vi. The authorization, issuance, or sale of any equity interest, which has any more special rights than Class A shares; and
 - vii. Amendments to articles or bylaws.
 3. The operating name of CSIR will be changed to Indemnity Insurance Corporation of DC, Risk Retention Group.
 4. CSIR will write its entertainment insurance program business, with the following limits:
 - a. \$1,000,000 each occurrence
 - b. \$2,000,000 each aggregate

5. CSIR will not write business other than business in its entertainment insurance program, as such entertainment insurance program is defined in Paragraph A above.
6. CSIR will enter into, and comply with the terms and conditions of, an excess of loss reinsurance contract with CSIL, with the following terms:
 - a. CSIR will retain \$250,000 each occurrence
 - b. CSIR will cede to CSIL \$750,000 each occurrence
7. The reinsurance described in Subparagraph 6 of this Paragraph shall be provided pursuant to the attached Liability Excess of Loss Reinsurance Contract between CSIL and CSIR (Exhibit L), which shall not be modified without the prior written approval of the Commissioner.
8. CSIR will not write any business of any type until the actions described in this Paragraph have been fully implemented.
9. After the actions described in this Paragraph have been fully implemented, CSIR shall cease writing any business except:
 - a. Business written in conformity with Paragraph A above; and
 - b. For the two (2) year period authorized under Paragraph M (or such longer period as may be approved by the Commissioner under Paragraph M) entertainment insurance program business written by CSIR in the states of California, Connecticut, Maryland, Nevada, New Hampshire, New York, Pennsylvania, and Tennessee. CSIR shall cease writing business altogether, as set forth in Paragraphs K through M above.

Business Plan Modifications: CSIL

- U. CSIL hereby submits for approval, and the Commissioner hereby approves pursuant to D.C. Official Code § 31-3931.09(f), the following modifications to the business plan of CSIL:
1. B&D Consulting LLC (“B&D”) will operate as the captive manager of CSIL, and B&D will be responsible for all internal financial reporting and operational controls in addition to its statutory reporting and management duties.
 2. CSIL will operate pursuant to a fronting relationship with ASIC, pursuant to the following standards:
 - a. ASIC will issue policies on behalf of the entertainment program with the following limits:
 - i. \$1,000,000 each occurrence limit
 - ii. \$2,000,000 aggregate limit
 - b. ASIC will retain 35% of the first \$250,000 each occurrence
 - c. ASIC will cede 65% of the first \$250,000 each occurrence to American Safety Assurance, Ltd. (“ASAL”) and ASAL will retrocede 100% of such coverage to CSIL.
 3. CSIL will provide an excess of loss reinsurance policy to ASIC as follows:

- a. ASIC will cede to ASAL \$750,000 excess of the first \$250,000 each occurrence and ASAL will retrocede 100% of such coverage to CSIL.
4. CSIL will provide an excess of loss reinsurance policy to CSIR as follows: CSIR will cede to CSIL \$750,000 excess of the first \$250,000 each occurrence.
5. The reinsurance and cedings of coverage referenced in Subparagraphs 2, 3, and 4 shall be governed by the terms of the attached Liability Excess of Loss Reinsurance Contract between CSIR and CSIL (Exhibit L), the attached Liability Quota Share Reinsurance Contract between American Safety Indemnity Company and American Safety Assurance, Ltd. (Exhibit M), and the Liability Excess of Loss Reinsurance Contract between CSIL and American Safety Indemnity Company (Exhibit N), and the Agreement for an Account Ownership Arrangement — Segregated Account B-207 (Exhibit O), none of which shall be modified without the prior written approval of the Commissioner.
6. CSIL will write no direct business and will only assume reinsurance ceded by ASAL and ASIC and by CSIR as provided in CSIL's business plan as modified herein. CSIL shall assume no other reinsurance from any source.
7. The fronting arrangement with ASIC and ASAL will include sufficient "cut-through" provisions and perfected security interests with respect to any escrow or deposit funds posted as security to protect the insureds on business reinsured by CSIL and CSIR in the event of insolvency of either ASIC or its Bermuda affiliate. *Subject to approval by ASIC and their respective reinsurers.*
8. The operating name of CSIL will be changed to Indemnity Reinsurance Corporation of DC.
9. No business shall be written by or on behalf of CSIL except pursuant to the agreements set forth in Paragraph A above.
10. CSIL shall provide the Commissioner with a copy of ASAL's audited financial statements on or before June 30 of each year.

Fines

- V. On or before the effective date of this Consent Agreement and Order, CSIL shall, in settlement of the issues raised in the November 8, 2005 Order, April 6, 2006 Order, and April 14, 2006 Order, pay to the Government of the District of Columbia, via the Department of Insurance, Securities and Banking, by cashier's or certified check payable to "D.C. Treasurer" the amount of \$90,000.00, pursuant to the attached Schedule of Fines (Exhibit P).
- W. On or before the effective date of this Consent Agreement and Order, CSIR shall, in settlement of the issues raised in the November 8, 2005 Order, April 6, 2006 Order, and April 14, 2006 Order, pay to the Government of the District of Columbia, via the Department of Insurance, Securities and Banking, by cashier's

or certified check payable to “D.C. Treasurer” the amount of \$36,000.00, pursuant to the attached Schedule of Fines (Exhibit P).

Compliance with Laws, Regulations, and Orders

- X. CSIL and CSIR shall notify the Commissioner within 5 business days of any known or suspected violation of the insurance laws or regulations of the District of Columbia, or an order or directive of the Commissioner (including this Consent Agreement and Order), by any employee or officer of CSIL or CSIR, or any captive manager, third party administrator, or managing general agent of CSIL or CSIR and employees and officers thereof. B&D shall be contractually obligated to make such disclosure to the Commissioner should it become aware of any such known or suspected violations.

Required Modifications to Agreements

- Y. Within ten (10) calendar days after the effective date of this Consent Agreement and Order, the Companies shall make the following amendments to the specified documents and shall provide to the Commissioner executed copies of the amendments:
1. Program Managers Agreement between American Safety Indemnity Company and The Agency, LLC (Exhibit A):
 - a. The first paragraph on page 1 shall be modified by striking the phrase “1st day of August, 2006” and inserting in its place the date of October 1, 2006, or a later date that is within ten (10) calendar days after the effective date of this Consent Agreement and Order.
 - b. Section 4.k shall be amended by striking the phrase “\$1,000,00” and inserting the phrase “\$1 million” in its place.
 - c. A new page 22 shall be inserted and shall read as follows: “THIS PAGE INTENTIONALLY LEFT BLANK”.
 - d. Page 25 shall be replaced by a new page 25 that shall read as follows: “THIS PAGE INTENTIONALLY LEFT BLANK”.
 2. Master General Agency Agreement between CSIL and The Agency, LLC (Exhibit B):
 - a. Section 2.11 shall be amended by striking the phrase “prior written consent of the Company” and inserting the phrase “prior written consent of the Broker”.

- b. Section 16.6.b shall be amended by replacing the current contact information with contact information for Capitol Specialty Insurance, Ltd.
 - c. Section 13.1 shall be amended by inserting an effective date that is either the effective date of this Consent Agreement and Order or a date that is within ten (10) calendar days after the effective date of this Consent Agreement and Order.
 - d. Section I of the Cost Allocation Agreement that is attached to the Master General Agency Agreement between CSIL and The Agency, LLC shall be amended by inserting the phrase “of the gross net premium” after the phrase “35%”.
 - e. A new exhibit page will be added to the Cost Allocation Agreement that is attached to the Master General Agency Agreement between CSIL and The Agency, LLC; the exhibit page shall specify in detail the weighted average, including any associated formulas and calculations, referenced in Section II of the Cost Allocation Agreement.
3. Master General Agency Agreement between CSIR and The Agency, LLC (Exhibit C):
- a. Section 2.11 shall be amended by striking the phrase “prior written consent of the Company” and inserting the phrase “prior written consent of the Broker” in its place.
 - b. Section 13.1 shall be amended by inserting an effective date that is either the effective date of this Consent Agreement and Order or a date that is within ten (10) calendar days after the effective date of this Consent Agreement and Order.
 - c. Section I of the Cost Allocation Agreement that is attached to the Master General Agency Agreement between CSIR and The Agency, LLC shall be amended by inserting the phrase “of the gross net premium” after the phrase “35%”.
 - d. A new exhibit page will be added to the Cost Allocation Agreement that is attached to the Master General Agency Agreement between CSIL and The Agency, LLC; the exhibit page shall specify in detail the weighted average, including any associated formulas and calculations, referenced in Section II of the Cost Allocation Agreement.

4. Claims Servicing Agreement between CSIL and The Agency, LLC (Exhibit D):
 - a. Section VIII.A shall be modified by adding at the end the following sentence: “Provided, We will not pay to you any claims servicing fee or service bonus for any claims servicing you provide for a policy that was written before the effective date of this agreement.”
5. Claims Servicing Agreement between CSIR and The Agency, LLC (Exhibit E):
 - a. Section VIII.A shall be modified by adding at the end the following sentence: “Provided, We will not pay to you any claims servicing fee or service bonus for any claims servicing you provide for a policy that was written before the effective date of this agreement.”
6. Liability Excess of Loss Reinsurance Contract between CSIL and CSIR (Exhibit L):
 - a. Article 6, Section D shall be amended by striking the word “ad” and inserting the word “as” in its place.
 - b. Article 6, Section D shall be further amended by striking the word “Noting” and inserting the word “Nothing” in its place.
 - c. Article 8, Section D shall be further amended by striking the phrase “, other than those expenses incurred by Environmental Calms Services, Inc. Atlanta, Georgia”.
 - d. Article 9, Section B. shall be amended by striking the phrase “\$0,_____” and inserting the phrase “\$0 (zero)” in its place.
 - e. Article 9, Section B. shall be further amended by striking the phrase “\$____,000” and inserting the phrase “\$0 (zero)” in its place.
7. Liability Excess of Loss Reinsurance Contract between CSIL and American Safety Indemnity Company (Exhibit N):
 - a. Article 9, Section B. shall be amended by striking the phrase “\$0,_____” and inserting the phrase “\$0 (zero)” in its place.
 - b. Article 9, Section B. shall be further amended by striking the phrase “\$____,000” and inserting the phrase “\$0 (zero)” in its place.

- c. Article 12 shall be amended by striking the phrase “__%” and inserting the phrase “0 (zero) %” in its place.

Miscellaneous

- Z. All references to CSIL and CSIR in this Consent Agreement and Order, and any documents referenced in or attached to this Consent Agreement and Order, shall be deemed to include any successors in interest to CSIL and CSIR.
- AA. This Consent Agreement and Order shall become a public document upon its execution by all of the parties.
- BB. The failure of CSIL, CSIR, or other party mentioned in this agreement to include a term required by this Consent Agreement in a document, agreement, or contract required by or incorporated into this Consent Agreement shall not be considered a waiver by the Department of the term nor shall it relieve CSIL, CSIR, or any other party from its requirement to comply with the term.

Non-Compliance with Consent Agreement and Order

- CC. If the Commissioner determines, after notice and an opportunity to be heard, that either CSIL or CSIR has violated or otherwise failed to comply with any term, condition, or provision of this Consent Agreement and Order or an agreement or other document attached hereto or incorporated by reference, the Commissioner may revoke the license of the non-complying entity and/or impose a fine of up to \$5,000 for each instance of non-compliance.
- DD. In addition to, or in lieu of, taking any action described in Paragraph CC above, the Commissioner may institute administrative or judicial proceedings against a non-complying party to enforce this Consent Agreement and Order or sanction the non-complying party and/or may take any other action authorized under applicable law or regulation.

Dismissal of Prior Proceedings

- EE. In consideration of the commitments of CSIL and CSIR pursuant to this Consent Agreement and Order, the Commissioner hereby withdraws the November 8, 2005 Order and the April 14, 2006 Order and deems resolved the issues raised in the April 6, 2006 Order; provided, the Commissioner may reinstate or deem unresolved the issues raised in any or all of the orders in the event of a breach of this Consent Agreement and Order by either CSIL or CSIR.

ORDER

It is hereby ORDERED that:

1. CSIL and CSIR shall comply with all of the terms, conditions, and provisions of this Consent Agreement and Order and all terms, conditions, and provisions of each of the agreements and other documents attached hereto or incorporated by reference.
2. The changes to the business plans of CSIL and CSIR set forth in Paragraphs T and U above are approved.
3. The terms of this Consent Agreement and Order may not be modified, except by a subsequent order issued by the Commissioner.
4. This Consent Agreement and Order shall be effective upon the signature of the Commissioner.

AGREED AND CONSENTED TO:

Capitol Specialty Insurance, Ltd.
by its president and director,
Jeffrey Cohen

DATE: October __, 2006

[NOTARY BLOCK]

Capitol Specialty Insurance Risk
Retention Group, Inc.
by its president and director,
Jeffrey Cohen

DATE: October __, 2006

[NOTARY BLOCK]

SO ORDERED.

Thomas E. Hampton
Commissioner
Department of Insurance,
Securities and Banking

DATE: October __, 2006

SCHEDULE OF EXHIBITS

- Exhibit A: Program Managers Agreement between American Safety Indemnity Company and The Agency, LLC
- Exhibit B: Master General Agency Agreement between CSIL and The Agency, LLC
- Exhibit C: Master General Agency Agreement between CSIR and The Agency, LLC
- Exhibit D: Claims Servicing Agreement between CSIL and The Agency, LLC
- Exhibit E: Claims Servicing Agreement between CSIR and The Agency, LLC
- Exhibit F: Management Agreement between CSIR and B&D Consulting LLC
- Exhibit G: Management Agreement between CSIL and B&D Consulting LLC
- Exhibit H: Cost Allocation Agreement between CSIL, CSIR, and Insurance Designers of Maryland
- Exhibit I: Promissory Note Between Insurance Designers of Maryland, Inc. and CSIL
- Exhibit J: Form Letter of Credit
- Exhibit K: Promissory/Surplus Note Between Jeff Cohen and CSIL
- Exhibit L: Liability Excess of Loss Reinsurance Contract between CSIL and CSIR
- Exhibit M: Liability Quota Share Reinsurance Contract between American Safety Indemnity Company and American Safety Assurance, Ltd.
- Exhibit N: Liability Excess of Loss Reinsurance Contract between CSIL and American Safety Indemnity Company
- Exhibit O: Agreement for an Account Ownership Arrangement — Segregated Account B-207
- Exhibit P: Schedule of Fines

**Government of the District of Columbia
Department of Insurance, Securities and Banking**

Thomas E. Hampton
Commissioner



AGREEMENT OF COMPLIANCE, ASSISTANCE, AND COOPERATION

WHEREAS, In consideration of the agreement of Insurance Designers of Maryland, Inc., The Agency, LLC, and Jeffrey Cohen, individually, to comply with, and fully assist and cooperate in ensuring the compliance of Capitol Specialty Insurance, Ltd. (“CSIL”) and Capitol Specialty Insurance Risk Retention Group, Inc. (“CSIR”) with, the Consent Agreement and Order in RFB-MC-05-11 / RFB-CD-06-02 / RFP-Corr.O-05-09, the Commissioner agrees to enter into the Consent Agreement and Order, Insurance Designers of Maryland, Inc., The Agency, LLC, and Jeffrey Cohen, individually, hereby agree to comply with, and fully assist and cooperate in ensuring the compliance of CSIL and CSIR with, the Consent Agreement and Order, and

Insurance Designers of Maryland, Inc., The Agency, LLC, and Jeffrey Cohen, individually, acknowledge and agree that failure on the part of either Insurance Designers of Maryland, Inc., The Agency, LLC, or Jeffrey Cohen, individually, to comply with and fully assist and cooperate in ensuring compliance by CSIL and CSIR with, the Consent Agreement and Order shall constitute a breach of the Consent Agreement and Order which shall authorize and allow the Commissioner to terminate the Consent Agreement and Order and subject CSIL and CSIR to further action as specified in the Consent Agreement and Order and as may be otherwise authorized by law.

Insurance Designers of Maryland,
Inc.
by its [president and director],
Jeffrey Cohen

DATE: October __, 2006

[NOTARY BLOCK]

The Agency, LLC
by its [president and director],
Jeffrey Cohen

DATE: October __, 2006

[NOTARY BLOCK]

Jeffrey Cohen, individually

DATE: October __, 2006

[NOTARY BLOCK]

Thomas E. Hampton
Commissioner
Department of Insurance,
Securities and Banking

DATE: October __, 2006

Acknowledged:

Capitol Specialty Insurance, Ltd.
by its president and director,
Jeffrey Cohen

DATE: October __, 2006

[NOTARY BLOCK]

Capitol Specialty Insurance Risk
Retention Group, Inc.
by its president and director,
Jeffrey Cohen

DATE: October __, 2006

[NOTARY BLOCK]

Exhibit J

**DISTRICT OF COLUMBIA
CAPTIVE INSURANCE COMPANY
IRREVOCABLE LETTER OF CREDIT**

Letter of Credit No. (00001)

A.B.C. Bank
Date Address
City, State

Commissioner
Department of Insurance, Securities and Banking
Attention: Timeka Hines
810 First Street, NE, Suite 701
Washington, DC 20002

Commissioner:

1. We hereby establish our IRREVOCABLE LETTER OF CREDIT in your favor for the account of _____ up to the aggregate amount of _____ available by your draft(s) drawn on us, at sight, bearing the number of this IRREVOCABLE LETTER OF CREDIT No. (00001). This LETTER OF CREDIT shall expire at our Letter of Credit Department, _____ at our close of business on _____ unless as hereinafter extended.
2. This LETTER OF CREDIT is issued on behalf of the above mentioned _____ (name of captive). We understand and agree that _____ (name of captive) has no obligation to reimburse us and we have no right of set off against any funds held by us for _____ (name of captive) in the event this LETTER OF CREDIT is drawn down, in whole or in part. By issuing this LETTER OF CREDIT, we waive any common law, statutory or contractual right of reimbursement or set off against _____ (name of captive) that may arise in the event this LETTER OF CREDIT is drawn down, in whole or in part.
3. It is a condition of the LETTER OF CREDIT that it shall be automatically extended for additional periods, each of one year, unless at least ninety calendar days prior to the then relevant expiration date we have advised you in writing that we elect not to extend. In that event, you may draw hereunder on or prior to the then relevant expiration date, up to the full amount then available hereunder, against your sight draft(s) on us, bearing the number of this LETTER OF CREDIT.

4. It is a further condition of this LETTER OF CREDIT that each automatic extension shall be measured from the then relevant expiration date, even though such date is not a business day in the District of Columbia for this Bank. It is also a condition of this LETTER OF CREDIT that, for the purpose of drawing hereunder, if the then relevant expiration date is a nonbusiness day for our Bank, drawing may be made not later than our next immediately following business day.
5. This LETTER OF CREDIT sets forth in full the terms of our undertaking, and such undertaking shall not in any way be modified, amended or amplified by reference to any note, document, instrument, statute, regulation or agreement referred to herein or in which this LETTER OF CREDIT is referred to or to which this LETTER OF CREDIT relates and any such reference shall not be deemed to incorporate herein by reference any note, document, instrument, statute, regulation, or agreement.
6. Each sight draft so drawn and presented shall be promptly honored by us if presented on or prior to the above stated expiration date or any extension thereof as above provided. Presentation under this LETTER OF CREDIT must be made at _____ located at _____ during normal banking hours.

Optional Provision

7. Unless otherwise expressly stated, this credit is subject to the Uniform Customs and Practices for Commercial Documentary credits fixed by the International Chamber of Commerce, ICC Publications No. 500 (1993 Rev.).

Very truly yours,

Exhibit Q

Schedule of Fines

Capitol Specialty Insurance, Ltd. and

# of violations	Violation	Fine per violation	Total fine for violation
8	Issuance of workers comp policies	\$2,000	\$16,000
1	Refusal to identify “rogue employee”	\$5,000	\$5,000
1	Issuance of liquor policy	\$2,000	\$2,000
23	Issuance of excess liability policies in excess of \$1M	\$1,000	\$23,000
30	Issuance of property policies in excess of \$1M	\$1,000	\$30,000
1	Change to cost allocation agreement	\$2,000	\$2,000
1	Failure to provide modified claims servicing agreement	\$2,000	\$2,000
ongoing	Uncollected accounts receivable	\$10,000	\$10,000
TOTAL for CSIL:			\$90,000

Capitol Specialty Insurance Risk Retention Group, Inc.

# of violations	Violation	Fine per violation	Total fine for violation
35	Issuance of excess liability policies of \$2M	\$1,000	\$35,000
1	Issuance of liquor policy	\$1,000	\$1,000
TOTAL for CSIR:			\$36,000